

**PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
BOARD OF TRUSTEES OPERATIONS, GOVERNANCE POLICY and AUDIT COMMITTEE
MEETING**

February 25, 2015

MINUTES

Members Present: Mr. Greg Ferguson, Chairman, Trustee
Mr. Jeff McHenry, Member, Trustee
Ms. Randie Stein, Member, Trustee

Others Present: Mr. Jared Smout, Deputy Administrator
Ms. Ivy Voss, Assistant Attorney General
Mr. Robert Ortega, Local Board Training Coordinator/HR Manager
Mr. Don Mineer, Local Board Training Specialist
Ms. Leslie Clark, Senior Financial Accountant/Great Plains DBA
Mr. John Hendricks, Senior Investment/Financial Accountant
Ms. Bridget Feeley, Internal Audit and Compliance Officer
Mr. Sam Meier, IT Operations Manager
Mr. John Chase, Senior Systems Programmer
Ms. Michelle Pechan, Paralegal
Ms. Bonnie Brown, Retired Members Manager
Ms. Annette Jorgensen, Insurance Team Lead, Cancer Insurance Manager
Ms. Jennifer Eichholz, Esq., In-House Investment Counsel – attended at 12:00 p.m.
Ms. Lisa Sweeting, Knowledge/Information Manager
Mr. Christian Palmer, Avant Strategies
Mr. Paul Bergelin, Performance Auditor, Arizona Office of the Auditor General
Mr. Craig Harris, The Arizona Republic

1. Call to Order, Roll Call, Opening remarks.

*Mr. Gregory Ferguson
Committee Chairman*

Chairman Ferguson called the meeting to order at 11:01 a.m.

2. Review, discussion and possible approval of Operations, Governance Policy and Audit Committee Minutes from January 21, 2015.

Mr. Gregory Ferguson

MOTION: 1-2/25/15	At 11:01 a.m.
Motion:	To approve the Operations, Governance Policy and Audit Committee Minutes from January 21, 2015 as presented.
Moved by:	Mr. McHenry
Seconded by:	Ms. Stein
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

3. Presentation of the Month-to-Date Budget Report for FY 2015 and possible **Recommendations**.

*Mr. John Hendricks
Manager Finance and Accounting*

The budget is not very different from last month. The administration legal expenses are projected to decrease at the end of the fiscal year by \$120,000, but the projected investment legal expenses are expected to increase by \$29,000. Overall, the budget expenses decreased from last month by \$54,000. Mr. McHenry stated that to not accept overruns for investment expenses means to not do the deal which is unacceptable. Expenses are over by about \$1 million, but they are related to making investments and building a pension fund. It is suggested by auditors and staff to tie these investment legal expenses to an asset. Ms. Voss said administrative and litigation expenses are going down and the understanding is they are being added to the cost of the investment. Ms. Stein added that thought needs to be given to this prior to the next budget year. Mr. Smout replied we are going to put together an example of how it would look if we changed the method of reporting since the budget process begins in March.

4. Written update on the progress of the Local Board Training Program and discussion and possible **Recommendations** regarding same.

*Mr. Robert Ortega
Local Board Training Coordinator and Human Resources Manager
Mr. Don Mineer
Local Board Training Specialist*

In addition to the written report, Mr. Ortega said educational seminars regarding funding status and actuarial valuations have been held with more events to be held in the next couple of months.

5. Presentation of the "Requests for Local Board Rehearing" Report for the current month.

*Mr. Jared A. Smout
Deputy Administrator*

There are two rehearing requests left over from the prior month, with a new request sent to the Mesa Police Department, which as of today has been resolved.

6. Review, discussion and possible **Action** regarding law firms' billings for legal services performed in January, 2015.

Mr. Jared A. Smout

Administrative/litigation expenses for January were \$26,894 and for Investments they were \$92,000. Ms. Eichholz stated a careful review of legal bills was conducted and they are in line with the investment activity at this time. Ms. Stein added that she had met with Ms. Eichholz and the conversation was appropriate. Outside legal firms are used for specific matters. All legal firms have been approved by the Arizona Office of the Attorney General.

MOTION: 5-2/25/15	At 12:18 a.m.
Motion:	To approve the law Firms' billings for legal services performed in January, 2015 for the amount of \$119,676.61.
Moved by:	Mr. McHenry
Seconded by:	Ms. Stein
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

7. Report and **Recommendations** on the FY 2015 Compliance and Internal Audit Plan.

*Ms. Bridget Feeley
Internal Audit and Compliance Officer*

A compliance report will be given in March. Regarding the Internal Audit Plan, it is on track and we are working with the actuaries on service purchases. There was a discrepancy in management fees, but it was an issue of timing, not amount. We were billed for two months at once. This has been resolved and they were paid for one month.

8. Discussion and **Recommendations** regarding an amendment to the PSPRS FY 2015 Budget to provide funding for a reallocation of existing and open Lead Portfolio Manager position to an Analyst Position.

Mr. Jared A. Smout

This position is requested to give back office support to Ms. Maleckaite and for someone with an international background to assist with international investments. We do not need to ask for a budget increase right now due to administrative savings for expenses which did not occur this fiscal year. Discussion was held about the structure of the investment department and duties for the coming fiscal year. Mr. McHenry stated it would be possible if it can be done this year without a budget increase. Mr. Ferguson said he does not like the wording, but with one open position with ADOA, there is the aspect of reallocating the budget money with the ADOA structure. It was said since it is an investment position, it is exempt.

MOTION: 2-2/25/15	At 11:29 a.m.
Motion:	Since position savings are available, to recommend to the Board of Trustees to approve this change.
Moved by:	Ms. Stein
Seconded by:	Mr. McHenry
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

9. Discussion and possible **Recommendation** on the need for an in-house actuary.

Mr. Jared A. Smout

Due to a report by a task force asking for help in understanding actuarial situations, an in-house actuary would make these requested services available to employers that cannot afford actuarial studies on their own and would assist employees with their understanding of information regarding actuarial reports. This would not be the primary duty of the in-house actuary, but would help with outreach and it would be someone who has sufficient understanding of how the actuary world works, who can give estimates to employers, give information to the outside actuaries and help with seminars.

Through discussion, the members of the committee requested more information regarding cost savings, more information about policies to be put in place, who will pay for this, if there would be any credibility problems and how to work with our outside actuaries. Mr. Smout added we need someone to organize reports and keep track of actuarial requests, someone with a goal of better customer service and at the same time we need to keep costs down. Mr. McHenry said he feels this will have added costs and is not convinced of this proposal.

- 10. Discussion and possible **Recommendations** regarding changes to the Fire Fighter, Peace Officer and Corrections Officers Cancer Insurance Policy Program, including keeping the premium at \$50 for fiscal 2015-16.

*Mr. Jared A. Smout
Ms. Bonnie Brown
Retired Members Manager*

Recommended changes were presented at the November meeting and they were taken to the membership groups. Issues were addressed regarding the Schedule of Benefits such as the Cancer Intensive Care Benefit and the hospital confinement. The implementation date was changed to March 31 and payments will be collected by August 31 for a July 1 rollout.

MOTION: 3-2/25/15	At 11:56 a.m.
Motion:	To recommend to the Board of Trustees approval of the proposed changes to Fire Fighter, Peace Officer and Corrections Officers Cancer Insurance Policy Program and leave in the \$50 premium for fiscal year 2016.
Moved by:	Ms. Stein
Seconded by:	Mr. McHenry
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

- 11. Discussion and possible **Recommendations** on acceptance of the June 30, 2014 CAFRs for PSPRS, EORP, and CORP.

Mr. Jared A. Smout

The CAFRs have been modified and the drafts are awaiting any Board updates.

MOTION: 4-2/25/15	At 12:05 p.m.
Motion:	To recommend acceptance of the auditor's letters for PSPRS and EORP to be released this week and CORP to be released next week. To recommend to the full board to accept the CAFRs.
Moved by:	Mr. McHenry
Seconded by:	Ms. Stein
Discussion:	None
In Favor:	Unanimous
Motion:	Passes

12. Update, discussion and possible **Action** on the process/actions taken to comply with the Memorandum of Understanding with the ADOA.

Mr. Gregory Ferguson

Items that have been completed in order to comply with the MOU with ADOA include personnel issues, classification of positions, the completion of the GAO audit and its resulting draft report which is due soon, and discussion of the accounting package and who would control this. Discussions have been held about the costs of paying payroll, the meaning of an independent trust fund and researching if the ADOA accounting system will cost more than if we did it ourselves.

Changes in the MOU must be discussed, if we use the ADOA system it would include all of the Board information, i.e. per diem etc. We need to discuss levels of integration and keep our flexibility, keep our costs down, keep bureaucracy down and be an efficient and independent trust fund.

13. Review, discussion and possible **Recommendations** on potential legislative proposals for the 2015 legislative session including items for a possible administrative amendments bill.

Mr. Jared A. Smout

The three IRS bills will be amended by outside legal counsel. This agenda topic will be reviewed at the Board of Trustees meeting.

14. Call to the Public.

This is the time for the public to comment. Members of the Committee may not discuss items that are not specifically identified on the agenda. Therefore, pursuant to A.R.S. § 38-431.01 (H), action taken as a result of public comment will be limited to directing staff to study the matter, responding to any criticism, or scheduling the matter for a later date for further consideration and possible recommendations to the Board of Trustees.

There was no response to the Call to the Public.

15. Schedule next meeting. (*Currently scheduled for Wednesday, March 25, 2015*)

The next meeting will be held on Wednesday, March 25, 2015.

16. Adjournment.

The meeting was adjourned at 12:21 p.m.

Mr. Gregory Ferguson, Chairman